

VZCZCXRO8072
RR RUEHAST
DE RUEHSK #0628/01 1650608
ZNR UUUUU ZZH
R 140608Z JUN 06
FM AMEMBASSY MINSK
TO RUEHC/SECSTATE WASHDC 4542
INFO RUCNOSC/ORGANIZATION FOR SECURITY COOPERATION IN EUROPE
RUEHGV/USMISSION GENEVA 0315
RUEHVEN/USMISSION USOSCE 1174
RUEHBS/USEU BRUSSELS
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC
RHMFISS/HQ USEUCOM VAIHINGEN GE
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK

UNCLAS SECTION 01 OF 02 MINSK 000628

SIPDIS

SENSITIVE

SIPDIS

DEPT PASS TO USTR

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [PREL](#) [USTR](#) [BO](#)

SUBJECT: State Forces Competition to the Lowest Common Denominator

MINSK 00000628 001.2 OF 002

SENSITIVE BUT UNCLASSIFIED, PROTECT ACCORDINGLY

¶1. (SBU) Summary: On June 8, General Manager for Coca-Cola Beverages Belarus Alexander Denisov listed for Econoff a number of problems Coke faces in Belarus. In recent months the Minsk City government has been removing hundreds Coca-Cola refrigerators the company gave to street kiosks selling Coke products. A senior city employee gave an independent newspaper several absurd justifications for this move. Coke, and other private businesses, also face a series of new and restrictive laws and decrees which make it increasingly hard to operate in Belarus. End summary.

The War on Coke's Coolers

¶2. (U) About two months ago Minsk City authorities started ordering venders, mainly kiosks, to get rid of the large refrigerated Coca-Cola coolers many of them placed outside their kiosks to sell Coke products. In its letters to businesses Minsk City claimed this move was to improve the esthetics of the city. Since 1996 Coke has given over 2,000 such coolers for free to venders in Minsk. In early May independent newspaper Belgazeta interviewed Denisov and Aleksandr Lukashevich, Head of the Minsk City Division for Trade and Services. Lukashevich gave a grab-bag of reasons why the city had ordered the removal of Coke coolers, including:

- the coolers made Minsk look like an "Asian city;"
- Coke never received permission to distribute these coolers (Denisov claimed they did);
- the Ministry of Labor ruled that the coolers were dangerous to citizens, although he did not say in what way;
- Coke's competitors (state-owned) complained that they did not have any coolers at Minsk businesses and asked the city to provide them. When the journalist suggested these companies should compete themselves, Lukashevich replied, "No, this is our problem, for the organs of trade control;"
- kiosks were selling Coke at bus stops, making these places into "objects of trade," rather than places of transit;
- "These kiosks at bus stops are not there to provide people with cold drinks, but to solve minor problems [i.e.- to sell small goods];"
- drinking anything at a bus stop is not sanitary, and it is neither safe nor esthetic to drink from a bottle on a bus [he

added, "Thank God no one has suffered from this, but it could happen."];
--a police study found that Coke coolers make the sidewalks unsafe because electrical cables can cause people to trip;
--all brands of cold beverages must have space in these coolers, "so people have the right to choose," but Coke refused.

13. (U) Lukashevich added that no one had yet complained about the withdrawal of Coke coolers, and stated that, "no one will complain." While praising Coca-Cola as a firm which hires Belarusians, he concluded, "When a person buys a drink, they need to know and we need to know that everything is in order."

14. (U) In his answering interview, Coke's Denisov argued that the city did give Coke permission to install these coolers, including from Minsk's architectural and esthetics specialists. However, Coke was willing to help the city redesign its bus stops and kiosks to ensure that its coolers are safely positioned (although he stated there is no danger now). He also argued that any company has the right to distribute such coolers, but only Coke had the initiative to make such an investment.

15. (SBU) Denisov told Econoff that the real reason for this pressure is that Coke is viewed in Belarus as a foreign/American firm, even though 499 of its 500 employees are Belarusian. Another strike against Coke is that it is a private firm. Its main competitors, Darida and the Minsk Non-alcoholic Beverages Plant, are state-owned. Both reportedly complained to the GOB that Coke was competing unfairly by distributing coolers, and asked the GOB to even this playing field. Rather than the state helping its companies make this investment, the GOB decided to disadvantage all firms equally. Moreover, Denisov stated these state companies already receive benefits from the GOB that Coke does not.

Punish All Business Equally

MINSK 00000628 002.2 OF 002

16. (SBU) Denisov went on to explain that removing the coolers is not the only way in which the state is hindering trade. Coke currently faces a number of new decrees and laws which will greatly impact business. A recent presidential decree mandates how much companies can pay employees. The law sets out a number of pay grades, and stipulates that the highest grade cannot be paid more than roughly eight times what the lowest grade earns. Denisov said that it will be impossible to attract and retain qualified managers if Coke can only pay them eight times what his cleaning staff earns. Within Belarus this is not a major problem, as all business will face the same restriction, but he complained he is already having difficulty keeping his staff from accepting much higher paying jobs in Moscow and Kiev.

17. (SBU) Parliament recently passed the first reading of amendments to the investment code, which remove any preferential treatment for foreign investment and which put in place price controls. Now, Denisov said foreign investors receive a five-year exemption from Belarus' rapidly changing laws (meaning that the foreign investor operates under the laws in place when it entered the market for five years). This will not affect Coke, but Denisov claimed it would scare away some investment. More importantly, state companies are currently limited to raising their prices no faster than the official inflation rate (around 0.8%/month this year). The bill would make this restriction apply to all businesses, state and private. Denisov said that clause would be very damaging for Coke.

18. (SBU) Another recent presidential decree prevents companies from paying bonuses to staff if they are not profitable. Coke has most of its sales in the summer, meaning it is technically unprofitable in winter months, and so can no longer give end of year bonuses. On top of these new problems, Belarus has a high and complicated tax system, and Denisov said it is one of the few countries in the world that taxes revenue (at 2.7%), rather than profit. Denisov said he spends 30 to 40% of his time trying to mitigate the effects

of harmful legislation with the GOB, and chairs a committee of the GOB's Foreign Investment Council. Despite these problems, Denisov said he expects Coke's sales to increase 12 to 15% this year.

Comment

[19](#). (SBU) Despite the usual rhetoric from the GOB that it welcomes foreign investment, Belarusian state authorities constantly make life more difficult for all business, especially foreign and private companies. In its desire to micromanage all aspects of life and business in this workers paradise, the GOB is only scaring away the investment and expertise it claims it needs to grow the economy.

KROL